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The Market the Way I See It

*A monthly report for investors and friends from Eric Dugan
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Welcome 2021 and Happy New Year to you and your families.

Looking over the past month there is one thing I want you to remember. Price and time are the only things that matter (in the markets.) Though this is the case every day, January 2021 provided a clear example. The January 6th, 2021 insurrection and raid on the US Capitol was the first attack on the US Capitol since the War of 1812. One would naturally think the US stock market would come under pressure. It did not. Though the market opened lower and moved lower the S&P 500 rallied +2% off its low to a new all-time high. This day is a clear example of how important price and time are when managing risk; and highlights the importance of being able to adapt to the daily narrative of the market.



Managing risk using price-based stops and time-based exits enables you to limit losses and maximize gains. Our 3D Defender system entered a position on January 6, 2021 and exited the position when the market's price action abruptly turned and retraced too far off its low. As you can see in the chart above, after exiting the position the S&P 500 rallied +1.8% higher (orange arrow) and closed +1% higher (green arrow). This is a perfect example of why 3D Defender manages risk using price-based stops. The S&P 500 finished January 6, 2021 up +0.57%. 3D Defender finished -0.03% gross (100% funded) and -0.12% gross (25% funded).

The S&P 500 made 7 new all-time highs in 7 of the first 15 business days of 2021 and according to CFRA Research the stock market's +13% ascent from election-day to inauguration day marks the best post-election market performance for a new president in modern history. That brings us to January 25th, 2021 which was the highest closing level in the history for the S&P 500. That day I posted this [LinkedIn Video](#) sharing my dynamic "3D view" of the S&P 500 and provided insight into why I thought that historic day was different and why the S&P 500 was vulnerable. The S&P 500 made another new all-time high on January 26, 2021 and then abruptly turned and dropped -4.5% (RISK HAPPENS FAST) in 4 days (All-time intraday high to yearly low). There could be many reasons why the market turned, i.e. FOMC, Economic data, Earnings, COVID, GME stock news or something else. The bottom line is that all the information, data and news is reflected in the market's price.

As you can see from the following January 2021 S&P 500 monthly chart, intraday dips (green arrows) were bought and selling was met with buying consistently throughout the month. This included during the -3.3% descent in the final week of the month (red box). In fact, the average rally off the intraday low in January was +1% and in the final week intraday swings exceeded +1.5%. This type of price activity is an unfavorable environment for 3D Defender.

**PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.
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S&P 500 January 2021 (20-minute intervals)



The S&P 500 finished January 2021 **-1.11%** (red arrow). 3D Defender was **-0.37%** net (100% funded) and **-1.48%** net (25% funded).

Now let's dig a little deeper and isolate what happened in the final week of the month for the S&P 500, 3D Defender and other stock market defense solutions during the stock market's "disorderly" **-3.3%** descent in the last week of January.

3D Defender is our Daily, Dynamic and Defensive solution to stock market declines. It only invests in the S&P 500 and does not employ long exposure. 3D Defender is a global-macro rules-based system (repeatable process), that manages risk using price and time; and is based on decades of data and statistically significant patterns that are logical, symmetrical, and persistent. 3D Defender is designed to make the stock market a better long-term investment by profiting from intraday stock market weakness and stepping aside during rallies. The table to the right is a comparison of the S&P 500, 3D Defender and other stock market defense solutions for the last week of January 2021.

Last week of January Jan 25, 2021 – Jan 29, 2021	
S&P 500	-3.3%
3D Defender	+0.3%
CTAs	-1.5%
Hedge Funds	-1.2%
Gold	-0.3%

The following tables show a longer time horizon dating back to November of 2013 (7+ years).

3D Defender is one market (S&P 500), one side (Short), one day at a time (No overnight risk)					
11/2013 - 01/2020	S&P 500	3D Defender	Hedge Funds	CTAs	Gold
Annualized ROR	10.9%	9.8%	1.8%	2.6%	4.7%
Correlation to S&P 500	1.00	-0.19	0.86	0.16	0.03
Max Drawdown	-20.0%	-13.8%	-9.0%	-14.3%	-19.0%
Ann. Standard Deviation	14.0%	17.4%	4.6%	8.2%	13.9%
Sharpe Ratio (0% Ann.)	0.81	0.77	0.41	0.35	0.40
Skew	-0.4	1.1	-1.2	0.1	0.6
Average Monthly Gain	3.0%	5.0%	0.9%	2.0%	3.4%
Average Monthly Loss	-3.3%	-2.4%	-1.1%	-1.8%	-2.8%
Up Monthly Deviation	2.6%	4.5%	0.7%	1.5%	3.0%
Down Monthly Deviation	3.1%	2.1%	1.2%	1.3%	1.9%
Gain to Pain Ratio*	0.89	0.91	0.39	0.28	0.35

*High ratio means more efficient with losses.

S&P 500 Seven Largest Drawdowns Since November 2013						
Start Date	End Date	S&P 500	3D Defender	Hedge Funds	CTAs	Gold
Sep 19, 2014	Oct 15, 2014	-7.3%	32.2%	-4.2%	2.4%	-1.6%
Jul 21, 2015	Aug 25, 2015	-12.0%	8.3%	-3.8%	0.5%	1.5%
Nov 4, 2015	Feb 11, 2016	-12.7%	13.8%	-7.1%	10.7%	6.2%
Jan 29, 2018	Feb 8, 2018	-10.1%	8.3%	-2.9%	-9.2%	-2.7%
Mar 12, 2018	Apr 2, 2018	-7.3%	5.9%	-1.7%	-0.4%	1.2%
Sep 21, 2018	Dec 24, 2018	-19.4%	22.2%	-6.8%	-1.0%	4.1%
Feb 20, 2020	Mar 23, 2020	-33.9%	2.5%	-10.9%	-4.8%	-3.1%
Cumulative Return		-102.7%	93.2%	-37.4%	-1.8%	5.6%

Hedge Funds: HFRX Global Hedge Fund Index

CTAs: SG CTA Index is designed to track the largest 20 (by AUM) CTAs and be representative of the managed futures space.

3D Defender performance in the one-week table and the drawdown table is net of brokerage and gross of 3D's fees and is net of all fees in the other table. 3D Defender is 25% funded and does not include interest income. 3D Defender uses constant account sizing. 3D Defender live track-record record begins in February 2011 and was enhanced in November 2013. The track record since inception is available upon request.

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